

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE AGENCIES CASH MANAGEMENT IN THE
DEFENSE BUSINESS OPERATIONS FUND**

Report No. 97-067

January 10, 1997

Department of Defense

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Acronyms

DBOF	Defense Business Operations Fund
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DMC	Defense Megacenters
FMR	Financial Management Regulation
IG	Inspector General
JLSC	Joint Logistics Service Center
SLA	Service Level Agreement
USTRANSCOM	U.S. Transportation Command
USD(C)	Under Secretary of Defense (Comptroller)



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January 10, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Defense Agencies Cash Management in the Defense
Business Operations Fund (Report No. 97-067)

We are providing this audit report for review and comment. This is the first in a series of reports on issues related to cash or the Fund Balance With Treasury Account in the Defense Business Operations Fund. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Comments received from the Under Secretary of Defense (Comptroller) and the Director, Defense Logistics Agency were not fully responsive. Recommendation A.2.b. to the Under Secretary of Defense (Comptroller) was revised, renumbered as A.1.c., and redirected to the Director, Defense Logistics Agency. The comments from the Director, Defense Finance and Accounting Service, although responsive, indicated that revised policies and procedures on cash management would be issued by November 30, 1996. Because the policies and procedures have not been issued, we request a revised completion date. We request that the organization identified on the appropriate chart in Appendix C provide comments on the unresolved recommendations by March 10, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Raymond D. Kidd, Audit Program Director, at (703) 604-9110 (DSN 664-9110) or Ms. Barbara A. Sauls, Audit Project Manager, at (703) 604-9129 (DSN 664-9129). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-067
(Project No. 5FH-2021)

January 10, 1997

Defense Agencies Cash Management in the Defense Business Operations Fund

Executive Summary

Introduction. The issue of cash management for the Defense agencies in the Defense Business Operations Fund was identified during our audit of the Fund Balance With Treasury Account of the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund. We performed our work at the Defense Finance and Accounting Service, the Defense Information Systems Agency, and the Defense Logistics Agency. This audit of the Fund Balance With Treasury Account is being performed to fulfill the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is the first in a series of reports on issues related to cash management, more technically known as the Fund Balance With Treasury Account, in the Defense Business Operations Fund.

On February 1, 1995, the Office of the Under Secretary of Defense (Comptroller), delegated the responsibility for cash management in the Defense Business Operations Fund to the Defense Logistics Agency for the Defense agencies and to the Military Departments. In addition, each Defense agency in the Defense Business Operations Fund has a cash manager, with cash management responsibilities, and provides cash management input to the Defense Logistics Agency. During FY 1995, the Defense agencies reported collections of \$28 billion and disbursements of \$28.3 billion. As of September 30, 1995, the reported cash balance for the Defense agencies was \$1.8 billion of the \$4.7 billion for the total Defense Business Operations Fund. In December 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Business Operations Fund would be segregated into five separate working capital funds, one of which would be a Defense agencies fund with cash managed by the Defense Logistics Agency. That realignment does not affect the issues discussed in this report.

Audit Objectives. The primary audit objective was to determine whether the Fund Balance With Treasury Account on the Consolidated Financial Statements of the Defense Business Operations Fund for FY 1996 was presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this portion of the audit, we completed a preliminary review of the Fund Balance With Treasury Account. We will complete our primary objective including a review of internal controls and compliance with laws and regulations during subsequent audit work.

Our preliminary review of the Fund Balance With Treasury Account highlighted the need for better control of cash within the Defense agencies. As a result, we expanded our audit to assess whether cash was effectively managed by Defense agencies within the Defense Business Operations Fund. First, we determined whether the Under Secretary of Defense (Comptroller) provided the Defense agencies with a sufficient beginning cash balance. Second, we evaluated whether the Defense agencies cash manager (the Manager) had the

authority, time, and information needed to manage cash and preclude cash from going below the minimum levels. Finally, we determined whether the Defense agencies effectively executed their cash management plans.

Audit Results. The Defense Logistics Agency, as the Defense agencies cash manager, could not effectively control collections and disbursements in the Defense Business Operations Fund during FY 1995. In addition, the cash managers within the Defense agencies could not execute their cash management plans.

The \$674 million provided to the Defense agencies in December 1994 was less than the minimum cash level required by DoD policy. In addition, the Manager lacked the authority, time, and accurate information needed to adequately oversee cash management. Consequently, to increase cash available to the Defense agencies, DoD used the cash generated from the sales and reduction of the Defense Logistics Agency's inventory as DoD downsized (Finding A).

There was insufficient policy to enable the Defense agencies to approach cash management consistently. In addition, the Defense Information Systems Agency Defense Megacenters customers did not have the budget information needed to fully fund the cost of Defense Megacenter services. As a result, during FY 1995, the Defense Information Systems Agency Defense Megacenters continued to pay liabilities although their disbursements exceeded collections by \$35.5 million. The Defense Finance and Accounting Service did not receive the funded orders needed to bill customers for services rendered. Consequently, disbursements exceeded collections by \$52.9 million during FY 1995 at the Defense Finance and Accounting Service, resulting in stopped payments to other Defense agencies (Finding B).

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency provide the Manager with the authority and time needed to manage cash within the Defense agencies. We recommend that the Under Secretary of Defense (Comptroller) strengthen cash management policy. We also recommend that the Director, Defense Information Systems Agency ensure that the budgeting information needed by the customers is available by the budget planning phase. Finally, we recommend that the Director, Defense Finance and Accounting Service provide to managers the cash management tools needed to prevent overdisbursement at individual agencies.

Management Comments and Audit Response. The Director, Defense Finance and Accounting Service and the Director, Defense Information Systems Agency concurred with the recommendations. The Director, Defense Finance and Accounting Service did not issue its policy on cash management tools as planned; therefore, we request a revised estimated completion date. The Under Secretary of Defense (Comptroller) partially concurred with the recommendations on policy changes; however, we did not consider the comments fully responsive. Policy changes can be developed that require funding orders at the beginning of the fiscal year and also require cash managers to control disbursements where possible to avoid Antideficiency Act violations. We request additional comments and an estimated completion date. The Director, Defense Logistics Agency nonconcurred with the recommendations to fully staff and train the cash managers. Although the Director nonconcurred with our recommendation on staffing; adequate corrective action was initiated. However, we continue to believe that additional training is necessary and request that the Director reconsider our training recommendation and provide additional comments and estimated completion dates. See Part I for a complete discussion of management's comments, and Part III for the text of the comments. We request that the Under Secretary of Defense (Comptroller), the Director, Defense Finance and Accounting Service, and the Director, Defense Logistics Agency provide additional comments by March 10, 1997.

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Part I - Audit Results

Audit Background

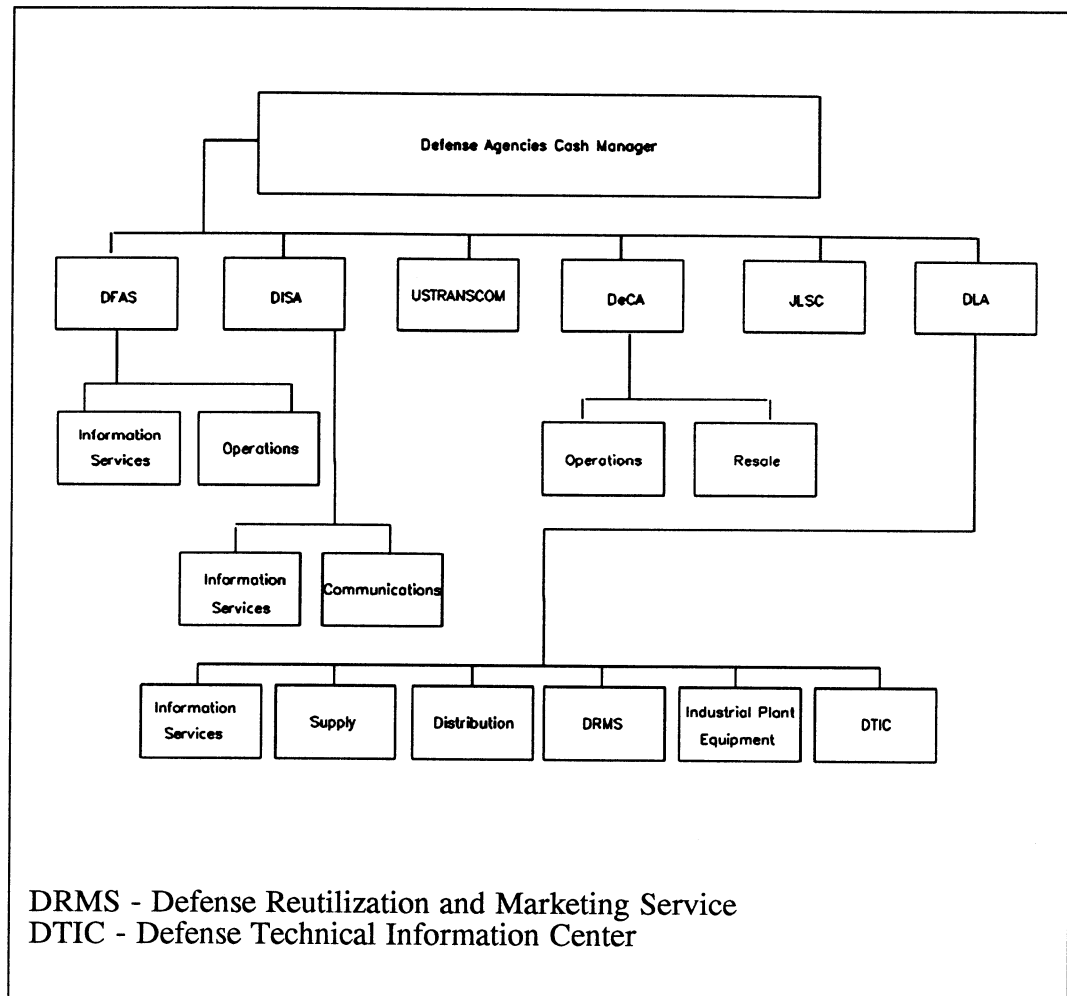
Congress established the Defense Business Operations Fund (DBOF) as a revolving fund on October 1, 1991. DBOF combined DoD- and Service-owned revolving funds formerly known as the stock and industrial funds. In addition, certain Defense agencies were added that received funding by appropriation. The DBOF was intended to provide improved financial management tools and establish incentives to control resources with greater efficiency. A significant part of any revolving fund management process is cash management.

Before the establishment of DBOF, the managers of the stock and industrial funds were responsible for their own cash management. With the establishment of DBOF, the Under Secretary of Defense (Comptroller) (USD[C]) assumed centralized cash management responsibility. With centralization, better cash control and reduced overall cash balance requirements were expected. However, the USD(C) realized that it could not maintain accountability over how the Defense agencies and Military Departments collected and disbursed cash. As a result, the USD(C) could only react to problems, rather than prevent the ones that could cause the cash balances to go below the minimum level as defined in the DoD 7000.14-R "Financial Management Regulation (FMR)."

Consequently, on February 1, 1995, the USD(C) decentralized DBOF cash management by giving responsibility for DBOF cash management to the Military Departments and to the Defense Logistics Agency (DLA) for the Defense agencies. Responsibility for the Office of the Secretary of Defense Corporate Account remained with the USD(C). The Corporate Account will be used as a suspense account for uncleared collection and disbursement transactions. In addition, within the Defense agencies are individual cash managers for each organization. These cash managers provide their cash management plans to the DLA. The USD(C) believed that decentralized cash management provided the business area managers with additional control of and responsibility for their operations.

The DLA, as the Defense agencies DBOF cash manager (the Manager), managed and controlled cash for the Defense agencies shown in the following diagram. The Defense agencies identified in this report include the DLA, the Defense Commissary Agency (DeCA), the Defense Finance and Accounting Service (DFAS), the Defense Information Systems Agency (DISA), the Joint Logistics Systems Center (JLSC), and the U.S. Transportation Command (USTRANSCOM). During FY 1995, these Defense agencies reported collections of \$28 billion and disbursements of \$28.3 billion. We limited our review to DLA, as the Defense agencies cash manager, and to DISA and DFAS as individual agencies who manage their own cash and report to DLA.

In December 1996, the USD(C) announced that the DBOF would be segregated into five separate working capital funds, including a Defense agencies fund whose cash would be managed by DLA. That realignment will not affect the issues raised in this report.



Scope of Responsibilities for the Defense Agencies Cash Manager

DISA is responsible for providing information processing and communications to support the DoD mission. The DISA Western Hemisphere, formerly known as the Defense Information Services Organization and the Defense Information Technology Services Organization, has gone through numerous alignments, consolidations, and name changes since its establishment on May 10, 1992. The DISA Western Hemisphere provides information processing, software development, and related technical support to DoD customers on a fee-for-service basis. Within the DISA Western Hemisphere is a headquarters office and 16 Defense Megacenters (DMCs). During FY 1995, the DMCs reported collections of \$684.7 million and disbursements of \$720.2 million.

The DFAS, as the accounting firm for the DoD, is responsible for providing monthly cash management reports and monthly inputs to the U.S. Treasury. DFAS, as a Defense agency, has its own cash management responsibility and reports its cash management plans through DLA. During FY 1995, DFAS reported collections of \$1.9 billion and disbursements of \$1.8 billion.

Audit Objectives

The primary audit objective was to determine whether the Fund Balance With Treasury Account of the FY 1996 Consolidated Financial Statements of DBOF was presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this portion of the audit, we completed a preliminary assessment of the Fund Balance With Treasury Account. An in-depth review of internal controls and compliance with laws and regulations will be conducted during subsequent audit work. This is the first in a series of reports on issues related to cash management, or the Fund Balance With Treasury Account in the DBOF.

Our objective for this portion of the audit was to assess whether cash was effectively managed by Defense agencies within DBOF. First, we determined whether the USD(C) provided the Defense agencies with a sufficient beginning cash balance. Second, we evaluated whether the Manager had the authority, time, and information needed to manage cash and preclude cash from going below the minimum levels. Finally, we determined whether the Defense agencies effectively executed their cash management plans.

See Appendix A for a discussion of audit scope and methodology. Appendix B discusses prior audit coverage.

Finding A. Cash Management Within the Defense Agencies

The DLA, assigned as the Defense agencies cash manager, could not effectively manage and control \$28 billion in collections and \$28.3 billion in disbursements during FY 1995. Although the USD(C) believed that decentralizing cash management would improve the process, the Manager experienced the same problems as the former centralized cash manager, the USD(C). Congressionally mandated transfers away from DBOF of \$8.3 billion in FYs 1992 and 1993 and cash management problems within the Navy contributed to the Defense agencies receiving an insufficient beginning cash balance of \$674 million. In addition, the Manager did not have the authority or the time to provide adequate management oversight of cash balances at the Defense agencies. Furthermore, the Manager could not accurately monitor cash levels within the Defense agencies because the cash management tools, such as reports and feeder data, continued to be inaccurate and untimely. Consequently, to increase cash available for Defense agencies' use, DoD used the funds generated from the reduction of inventory in DLA as DoD downsized. Also, the Manager could not fully control the cash balance and influence the Defense agencies' collections and disbursements of cash and could only react to, rather than prevent, problems that could cause the cash balances to go below the minimum specified in DoD policy.

Cash Management Responsibilities

Prior to the decentralization of DBOF cash, the USD(C) delineated cash management responsibilities through the FMR, volume 11B, chapter 54, "Cash, Receivables, Advances, and Cash Management," December 1994. The USD(C) delineated responsibilities to the Office of the Deputy USD(C) (Program and Budget Office), the DFAS, and the DoD Components. The Program and Budget Office was responsible for developing overall cash plans, monitoring overall cash levels, and establishing procedures to correct short-term cash shortages. The DFAS, as the accounting organization, was responsible for timely and accurate reporting of cash levels and for immediately resolving cash shortages. DoD Components were responsible for executing their own cash plans, monitoring collections and disbursements, correcting operational problems that affect cash, and managing cash to prevent Antideficiency Act violations as described in Title 31, United States Code, Section 1517(a), "Prohibited obligations and expenditures."

As the DBOF cash manager, the USD(C) reviewed budget plans from the DoD Components and documented those reviews in Program Budget Decisions. The USD(C) also reviewed and approved the billing rates used to generate cash. The USD(C) had a broad perspective of cash management along with the authority to adjust cash levels within DBOF. Despite the authority, the USD(C) found it difficult to properly manage cash at the DBOF level. The FMR states

Finding A. Cash Management Within the Defense Agencies

that cash shortage corrections will focus on business areas failing to meet operational plans. However, the USD(C) had little impact on Defense agency operations and, therefore, little effect on agency management of collections and disbursements.

In the decentralization of DBOF cash management, the USD(C) assigned the cash management responsibilities to the Military Departments and to the DLA as the Defense agencies cash manager. The Military Departments became responsible for executing their own DBOF cash plans, monitoring collections and disbursements, correcting operational problems that affect cash, and managing cash to prevent Antideficiency Act violations. The responsibilities of the Manager included monitoring cash plans for the six DLA DBOF business areas in addition to the seven business areas of the other four Defense agencies and USTRANSCOM. The Manager became responsible for reporting Antideficiency Act violations for the DBOF Defense agencies, but not for USTRANSCOM. USTRANSCOM, because of its special status as a unified command and the military ranking of its commander, retained responsibility for separately reporting violations of the Antideficiency Act. Although DLA serves as the Defense agencies cash manager, each Defense agency also has its own cash manager with DBOF cash management responsibilities. Along with budget personnel, those cash managers develop the agency cash plans and report any cash management problems to the Manager.

The USD(C) believed that decentralizing cash management would improve the process; however, the Manager has experienced similar problems managing Defense agencies' collections and disbursements. The problems were exacerbated because of an insufficient beginning cash balance, the lack of cash management oversight, and the lack of adequate cash management tools.

Beginning Cash Balance

The Manager could not effectively manage and control \$28 billion in collections and \$28.3 billion in disbursements during FY 1995. The Manager had problems managing cash for DBOF Defense agencies because they did not receive enough cash upon decentralization to maintain the operational and capital disbursement levels needed. Consequently, the DLA used the cash generated from the reduction in inventory as DoD downsized for the other Defense agencies.

DBOF Cash Balances. Working capital is critical to the operation of any business. The FMR volume 11B, chapter 54, section E, "Cash Management," states that cash levels for DBOF should be maintained at 7 to 10 days of operational costs and 4 to 6 months of capital disbursements. When DBOF cash was centralized, its working capital was reduced by Congress. Congress believed that the DBOF would be more efficient and therefore needed less cash. However, such action left the cash managers with inadequate funds for prior obligations. At the inception of DBOF on October 1, 1991, the initial cash balance was \$6.5 billion. Through normal business operations, cash available

Finding A. Cash Management Within the Defense Agencies

in the fund grew and Congress mandated transfers from DBOF of \$2.6 billion in FY 1992 and \$5.7 billion in FY 1993. Withdrawing the cash contributed to the inability of the USD(C) to provide sufficient beginning cash to the Defense agencies in FY 1995. DBOF cash had declined to \$2.4 billion by the end of FY 1994 according to the U.S. Treasury balance. DoD has accepted the U.S. Treasury balance as the official and most accurate information available on collections and disbursements. In addition, the USD(C) had to provide more funds to the Department of the Navy to ease cash management problems. The beginning cash balance of \$2.4 billion for total DBOF fell within the minimum cash requirement described in the FMR. However, for the Defense agencies' portion, the \$674 million cash actually available for distribution was less than prescribed by the FMR.

Defense Agencies Cash Balances. The actual cash available for the Defense agencies of \$674 million approximated 6 days of cash for operational costs and no cash for capital disbursement according to a representative from the USD(C). However, the actual cash balance needed to meet the 7-day minimum prescribed by the FMR was \$800 million. As a result, DFAS, as a Defense agency, drafted a memorandum to the USD(C), "Transfer of Cash Management Responsibility," dated November 28, 1994, and expressed concern about the amount of cash needed to operate and make capital disbursements to support the DoD financial improvement program. The minimum levels did not take into account the changes within DoD and DBOF. DoD decisions to acquire migratory financial management systems and accounting systems affected the actual amount of funds needed for capital disbursements. When DFAS became responsible for funding the financial management and accounting systems acquisitions, it documented the need for approximately a 20-day minimum of cash for both operations and capital. Although the number of days of cash available to the Defense agencies was beyond the control of the USD(C), the USD(C) helped alleviate the problems associated with insufficient cash through cash generation.

Cash Generation. Congress and the USD(C) were aware that the transfers of cash from DBOF affected the ability of the DoD to manage its DBOF funds. As stated in the DBOF status report dated March 1996, "This directed transfer turned out to be overly aggressive and necessitated special initiatives" One special initiative took place when Congress appropriated \$2 billion to DeCA and USTRANSCOM. Another initiative used by DoD to generate cash was through the reduction of inventory in the DLA Supply Management business area as DoD downsizes. In FY 1992, replacement of inventory was limited to 80 percent of sales, and in FYs 1993 through 1995, the limitation was at 65 percent of sales. Any cash generated by the DLA Supply Management business area could be provided to other Defense agencies if a cash shortage occurred.

With an inadequate beginning cash availability of \$674 million and no cash for capital disbursements, the ability to timely bill customers, collect funds, and monitor the actual availability of cash became critical. The USD(C) and the cash managers tried to identify and correct cash flow weaknesses to aid in effectively managing DBOF cash. Despite these efforts, problems remained.

Finding A. Cash Management Within the Defense Agencies

If the USD(C) could determine the actual amount of cash needed to effectively manage DBOF cash and request that amount from Congress, if necessary, the cash shortage problem may be corrected.

Cash Management Oversight

The Manager did not have the authority and time to provide the cash management oversight necessary to effectively manage and control cash. The Manager did not have the authority to set restrictive administrative cash targets or the time to execute cash management responsibilities. As a result, the Manager had limited influence over the Defense agencies' collection and disbursement of cash.

Authority to Set Administrative Cash Targets. With decentralization, DLA became responsible for reporting violations of the Antideficiency Act at the Defense agencies level, except for USTRANSCOM. USTRANSCOM, because of its special status as a unified command and the military ranking of its commander, retained responsibility for separately reporting violations of the Antideficiency Act. The FMR states that to avoid an Antideficiency Act violation, the cash on hand at the U.S. Treasury account levels must always be sufficient to pay liabilities when due. It requires that each DoD Component and organization operating within DBOF comply with the cash management policy. Although each Defense agency is responsible for compliance, the Manager needs authority to directly influence cash management at any Defense agency.

The Manager receives cash plans from the DBOF Defense agencies. However, the Manager has no influence over how the cash plans are developed or executed. One way to provide better oversight is by using a minimum cash balance or an administrative cash target. An administrative cash target is a separate subdivision of funds that functions as a guide of cash availability. The administrative cash target set by DLA can either be advisory or restrictive. With an advisory target, any overobligating, overexpending, or otherwise exceeding the target is not an actual violation of the Antideficiency Act. An example is the \$75 million target set for DFAS and the \$125 million target set for DISA as shown in Table 1. The Defense agencies are required to report variances from their cash plans of \$50 million according to the FMR for each business area. Unlike the Manager, the individual cash managers at the Defense agencies are not responsible for the solvency of the DBOF Defense agencies cash balances. If the target is restrictive in the amounts allocated, allotted, obligated, or expended, then exceeding the target would violate the Antideficiency Act and sanctions against responsible personnel could be taken.

In order to place the Antideficiency Act violation at the lower level such as the individual Defense agencies, separate allocations of funds would be necessary and may require that Congress provide more cash. However, the USD(C) could keep the reporting of the Antideficiency Act violation at a higher level such as DLA, yet establish restrictive cash targets at a lower level.

Finding A. Cash Management Within the Defense Agencies

Table 1. Cash Targets for the Defense Agencies

<u>Organization</u>	<u>October 1, 1994 Amount (millions)</u>
DeCA Operations	\$ 0.0
DeCA Resale	50.0
DFAS	75.0
DISA Communications	52.0
DISA DMCs	125.0
DLA	143.7
JLSC	100.0
Defense agencies subtotal	545.7
USTRANSCOM	151.0
Total	\$696.7

Effective cash management requires each Defense agency to be responsible for all aspects of cash management to include proper budgeting and planning for cash, billing and collecting cash, and managing cash to prevent exceeding administrative targets. As a result, the Manager needs authority to establish restrictive administrative targets within the Defense agencies. Such authority would improve oversight of cash management within the Defense agencies. The General Accounting Office noted similar problems in Report No. AIMD-94-80, (OSD Case No. 9339-D), "Financial Management Status of the Defense Business Operations Fund," March 9, 1994. The report states that DoD needs to develop an effective cash management policy that prescribes minimum and maximum cash requirements needed to support the fund, provide for cash forecasting, and hold Defense agencies and Military Departments accountable for cash outlay targets. The report contained no recommendations and the USD(C) took no action to implement effective cash management policy.

Time Needed to Execute Cash Management Responsibilities. The Manager was not given enough time to execute cash management responsibilities. The responsibilities include becoming knowledgeable of the Defense agencies, developing cash management procedures, and training cash managers within the Defense agencies. Despite the willingness of the Manager to be responsible for developing procedures and training cash managers, the additional responsibilities that were unrelated to cash management did not allow for full execution of cash management responsibilities. In the opinion of the Manager, the Defense agencies cash manager position would be better described as that of a "cash administrator" rather than of a manager. Because the Manager could not develop procedures and provide training, the cash managers complained that

Finding A. Cash Management Within the Defense Agencies

they lacked guidance, experience, and the expertise needed to manage cash, which resulted in their limited influence over the Defense agencies' collection and disbursement of cash.

Knowledge of Defense Agencies Cash Management. DLA assigned an individual within the DLA Comptroller Office as Manager. Part of the responsibility of the DLA Comptroller Office was to develop technical guidance and procedures for financial management. According to the Manager, the duties within the policy office were in conflict with the original responsibilities developed and documented in a proposed job description for the Manager. The proposed job description detailed responsibilities for developing and implementing cash management policies for a diverse group of at least 13 business areas within the DBOF Defense agencies and DLA. The Manager could spend only part of the work day on cash manager duties. The lack of time hindered the Manager's ability to learn the process used by each DBOF business area to manage cash. In each Defense agency, cash management involves the understanding of the budget process, billing and collecting, and disbursing. The mission of the agency and its operations will affect how cash is managed.

The DLA has initiated changes in the Manager's position. Management also stated that DLA was in the process of creating two part-time positions for Defense agencies cash management. It is critical that the Manager have sufficient time to fulfill the responsibilities of the position. We believe that designating one position as full time could allow more time for proper management of the Defense agencies cash.

Procedures and Training. The FMR is not sufficient guidance for cash managers to use to manage cash. In addition, the FMR has not been updated to reflect the changes in responsibilities. For example, the advisory target levels in Table 1 were interpreted and acted upon differently by the different Defense agencies. The FMR guidance is broad and thus not interpreted consistently. If the USD(C) had developed overall guidance on what is expected of cash managers, the results may have produced a more consistent method of managing cash and better adherence to the cash targets. Because of these shortcomings in guidance, the Manager needed to develop more detailed procedures for cash management.

The Manager also saw the need for training the cash managers at the individual Defense agencies. However, from the time cash was decentralized on February 1, 1995, until the present, training by the Manager was limited to one training conference. The Manager stated that detailed cash management procedures and training should be developed and taught as needed if cash is to be effectively managed within the DBOF. Without developed and tested cash management procedures and proper training, DoD will continue to experience inefficient cash management execution as discussed in Finding B.

Cash Management Tools

The Manager could not effectively manage and control cash because the existing cash management tools did not provide the information needed to adequately monitor cash levels or the required tools were not available. As a result, the Manager could only react to, rather than prevent problems that could cause the cash balances to go below the minimum number of days specified in DoD policy.

The FMR states that "...effective cash management is directly dependent on the availability of accurate and timely data on cash levels and operational results." The minimum levels pertained to the 7- to 10-days' cash for operations and an overall DBOF total of \$1 billion. Existing tools such as the DBOF Accounting Report 1307, "Report of Operations," the Weekly Flash Cash Report, and the DD Form 1176, "Report on Budget Execution," were not always timely or accurate. In addition, the Manager addressed memorandums to both DFAS and the USD(C) enumerating cash management requirements necessary for the new responsibility. However, most of those requirements have not been implemented.

DBOF Accounting Report 1307. The monthly DBOF Accounting Report 1307 allows the managers to continually track their financial position. It should reflect the revenue, expenses, net operating results, capital budget obligations, and outlays. The Statement of Financial Position is a part of the report that provides the value of the collections and disbursements; however, managers can not rely on its timeliness. In a DFAS memorandum to the DLA Comptroller, "Requirements to Support Defense Business Operations Funds (DBOF) Cash Management," dated February 6, 1995, the Principal Deputy Director states that in some instances, the revised Accounting Report 1307 may have to be prepared manually until systems changes are in place. As a result, the report may not be timely.

Weekly Flash Cash Report. The Weekly Flash Cash Report summarizes collection and disbursement transactions reported by disbursing offices two days after the end of the work week. The DFAS Centers summarize the weekly flash cash data provided by disbursing offices throughout DoD and transmit this data to the DFAS Indianapolis Center. The DFAS Indianapolis Center merely combines the data provided by each Center and prepares the report for distribution within DoD. Cash managers in the Defense agencies do not consider the Weekly Flash Cash Report as a reliable tool for cash management. Problems with completeness, accuracy, and timeliness continue to hinder its usefulness.

The problems with cash management tools are not new. Inspector General (IG), DoD, Report No. 93-134, "Principal and Combining Financial Statements of the Defense Business Operations Fund FY 1992," June 30, 1993, identified problems with the feeder reports from the DFAS Centers. The feeder reports did not agree with the reports then submitted to the Defense Accounting Office, Arlington, Virginia, but now being done by the DFAS Indianapolis Center. In addition, the reports were not reconciled, and they included estimates and

Finding A. Cash Management Within the Defense Agencies

inaccuracies that made them useless for management cash flow decisions. Headquarters, DFAS has been aware of the problems with the Weekly Flash Cash Report for a number of years and changes are now being developed to improve the report.

DD Form 1176 "Report on Budget Execution." The DD Form 1176, "Report on Budget Execution" (1176 report) provides a monthly status of cash and budgetary resources for DoD. The DFAS Centers prepare the 1176 report approximately 18 work days after the end of the preceding month; therefore, cash calculations can only be determined from the 1176 report after the fact. The DFAS Indianapolis Center prepares the final monthly 1176 report from unedited interim 1176 reports prepared by other DFAS Centers. The 1176 report details collection and disbursement cash trends which DFAS personnel identified as being critical in measuring and managing future cash.

In addition to monitoring cash and budgetary resource trends, the Manager used the 1176 report to calculate the monthly cash balance for Defense agencies. However, cash managers for business areas could not use the 1176 report to calculate their cash balance. The 1176 report prepared by business areas detailed collection and disbursement data only and did not reflect the undistributed collection and disbursement cash data as calculated by the U.S. Treasury. The undistributed data is shown at the DoD Component level only. Because the 1176 report was replaced by the new Office of Management and Budget form, SF-133, "Budget Execution Report" in June 1996, we have made no recommendations to change the 1176 report.

Other Cash Management Requirements. In a December 2, 1994, memorandum to the USD(C) and a December 29, 1994, memorandum to DFAS, the Manager enumerated other requirements to support DBOF cash management. The requirements included the need for accurate and timely cash management tools already discussed. In addition, the Manager requested specific items that have not been provided, such as, a systems change to mechanize the service order, revenue recognition, and collection process; an advance notification mechanism of potential cash shortages; authority to direct interim billings and manage disbursements; and training on recommended procedures for reconciling cash balances. According to DFAS, these items have not been provided because of the need for system changes.

Additional problems with cash management tools and reports were cited in the General Accounting Office Report No. AIMD 96-54, (OSD Case No. 1109), "Defense Business Operations Fund: DoD Is Experiencing Difficulty in Managing the Fund's Cash," April 10, 1996. The report states that the financial reports are untimely, incomplete, and inaccurate. Again, DFAS is aware of the problems. However, as the General Accounting Office noted, DoD cannot wait until systems are in place to improve the accuracy of these reports. Changes must be made in the interim to provide better management tools.

Summary

The USD(C) believed that decentralizing cash at a lower level would improve the cash management process. However, the Manager for Defense agencies encountered problems similar to those experienced when DBOF cash was centrally managed by USD(C). The problems prevented the effective control of cash. The congressionally mandated transfers and the cash management problems within the Department of the Navy contributed to an overall cash shortage within the DBOF. Whether or not Congress chooses to restore the cash transferred from DBOF in FYs 1992 and 1993, DoD should identify and correct cash flow weaknesses and request additional working capital funding, if necessary. The lack of authority and time restricted the Manager's ability to develop cash management procedures and train other cash managers. Also, the tools used to provide cash management information must be improved if they are going to be useful. In addition, to effectively manage cash for Defense agencies, the Manager must have adequate authority along with the responsibilities already given. Currently, the DoD cash management problems have not changed since they were previously reported by the IG, DoD, and by the General Accounting Office in 1993.

Management Comments on the Finding and Audit Response

USD(C) Comments. The USD(C) commented that the auditors did not appear to completely understand the level of cash the Defense agencies received in FY 1995 when cash management responsibilities were returned to the Military Departments and to DLA. The USD(C) stated that the cash transferred to the Defense agencies equated to 24 days of cash which exceeded the 7-to 10-day plus 6 months of capital set in the cash management policy. The 24-day level included a direct appropriation for DeCA operations. That appropriation could be used by DLA to execute cash management responsibilities. The USD(C) also stated that the ending balance for cash was a more significant measure of success than the starting balance.

The USD(C) agreed that the congressionally mandated cash transfer of FYs 1992 and 1993 completely depleted DBOF cash balances, and that it has been a struggle to restore cash to an acceptable level.

DLA Comments. DLA commented that at least 7 days of cash was maintained throughout FY 1995.

Audit Response. We discussed extensively with USD(C) personnel the level of cash transferred to the Defense agencies in FY 1995. We agreed at those discussions that the Defense agencies received \$674 million or approximately 6 days of cash for operational costs and no cash for capital disbursements. The USD(C) statement that the congressional appropriation of funds to DeCA could be used by DLA is incorrect. The direct appropriation for DeCA was necessitated to finance a portion of the cost of operating and maintaining

Finding A. Cash Management Within the Defense Agencies

commissaries. The costs included salaries and the transportation of products to overseas stores. Those cost were not included in the billing rates DeCA charges its customers and military personnel. The monies recouped through the billing rates will cover the resale expenses, not the salaries and transportation costs. The same is true of the direct appropriation to USTRANSCOM for the Air Mobility Command cost of training. The true costs to transport personnel and goods are not included in the billing rates to customers. The direct appropriation is needed to keep the costs low and competitive with other transportation services.

We agree that the DLA ending balance is a more significant measure than the beginning balance. However, if the beginning balance had been sufficient, the need to use special initiatives to generate cash would not have been so pressing. The 7- to 10-days cash balance on hand throughout the year did not fully reflect how cash was obtained and retained. The influx of cash that moved the Defense agencies toward a more acceptable level of cash came from the temporary expedient of DLA not fully replenishing its inventory, leaving cash available to transfer to others. We still contend that the insufficient beginning cash balance contributed to the difficulty in maintaining a sufficient cash balance throughout the year.

Recommendations, Management Comments, and Audit Response

Redirected, Renumbered, and Revised Recommendations. As a result of management comments, we revised and redirected draft Recommendation A.2.b. to DLA and renumbered the recommendation as A.1.c. We renumbered Recommendation A.2.a. directed to the USD(C) as A.2.

A.1. We recommend that the Director, Defense Logistics Agency:

a. Restructure and formalize the Defense agencies cash manager position within the Comptroller Office to allow full-time execution of cash management responsibilities for the Defense Business Operations Fund Defense agencies.

Management Comments. The Director, DLA nonconcurred with the recommendation. According to the Director, the audit report presents no factual data to support the finding that the cash manager had insufficient time to carry out assigned cash management responsibilities, or that restructuring the position would improve cash management. The only basis for the recommendation appears to be that it was the opinion of an employee who disagreed with management decisions on work assignments.

The Director, DLA concurred that their cash management responsibilities require a significant resource and thus have dedicated more than one full-time person to cash management. According to the Director, DLA, cash management is a priority in DLA.

Finding A. Cash Management Within the Defense Agencies

Audit Response. Although, the Director, DLA nonconcurred with the recommendation, management restructured the cash manager function and will provide more than one full-time person to carry out the same responsibilities that the first cash manager tried to accomplish on a part-time basis. The management initiative is considered responsive to our intent.

b. Develop and implement the training needed to improve cash management by the Defense Business Operations Fund Defense agencies.

Management Comments. The Director, DLA nonconcurred with the recommendation. The Director stated that this recommendation appears to be based on the opinion of an employee involved in cash management functions at the time of the audit. DLA believes assessing and satisfying personnel training needs are inherently supervisory/line management responsibilities and that DLA has no supervisory nor line management authority over other Defense agencies, nor does the core mission involve the development and execution of formal training for Defense personnel. If there is empirical evidence to suggest that Defense agencies' cash management personnel are not sufficiently trained, then the Director, DLA suggest the recommended action be directed to the Defense agencies concerned.

Audit Response. DLA comments to Recommendation A.1.b. are not responsive. DLA is responsible for maintaining the solvency of the Defense agencies part of DBOF. Since DLA is responsible for precluding or reporting an Antideficiency Act violation, DLA must ensure that all cash managers in the Defense agencies know how to protect and maintain their cash balances.

DLA may not have supervisory or line management authority, but DLA definitely has accountability for the Defense agency DBOF cash and therefore should have an extreme interest in whether the cash managers at Defense agencies are adequately trained. FMR, volume 11B, chapter 54, "Cash, Receivables, Advances, and Cash Management," December 1994 delineates cash management responsibilities. Because DLA was designated the duties previously assigned to the Program Budget Office, adequate training of cash managers should be used as a control procedure to help avoid short-term cash shortages. The training does not need to be formal, but DLA needs to ensure adequate instruction is provided to the Defense agency cash managers. DLA is responsible for developing policies and procedures to be used by the Defense agencies. The Defense agencies cash manager is considered the technical expert and is expected to provide advice and leadership to the Defense agencies cash managers. One method of providing advice and leadership is through training. In addition, the USD(C) commented that DLA should be contacted on specific staffing and training of personnel and that the USD(C) is available to provide assistance or support to DLA. We request that DLA reconsider its comments to this recommendation and provide additional comments in its response to the final report, citing corrective action planned or explaining how DLA ensures that Defense agency cash managers have been properly trained for their duties.

c. Assign restrictive administrative targets within the Defense Business Operations Fund Defense agencies for better management of collections and disbursements.

Finding A. Cash Management Within the Defense Agencies

Management Comments. The USD(C) partially concurred with the draft recommendation. However, the USD(C) stated that a policy change was not required. If DLA chooses to impose an administrative target on each Defense agency, there is nothing that precludes them from doing so today. As a result of the USD(C) comments, we revised and redirected the recommendation to DLA.

Audit Response. The USD(C) comments are responsive and, as a result, we redirected the recommendation to DLA. We request that DLA provide comments to the final report.

A.2. We recommend that the Under Secretary of Defense (Comptroller) determine the 7- to 10-day cash needs of the Defense Business Operations Fund, support the need, and request the needed cash from Congress, if necessary.

Management Comments. The USD(C) agreed with the recommendation. The USD(C) stated that numerous actions have been taken at this level to increase the billing rates charged to customers, which will produce collections in excess of costs, thereby increasing cash levels. Action will be taken during the review of the FYs 1998 and 1999 budget to ensure that the DBOF billing rates ensure a cash level of 7- to 10-days and financing of 6 months of capital outlays. The determination of the 7- to 10-days of cash needs of DBOF was made at the time of the cash transfer in FY 1995 and is reviewed each fiscal year for the purpose of monitoring the cash execution levels.

A.3. We recommend that the Director, Defense Finance and Accounting Service:

a. Establish procedures to substantiate that the Weekly Flash Cash Reports to the Defense Finance and Accounting Service Centers are on time and that the data are accurate.

Management Comments. The Director, DFAS concurred with the recommendation. DFAS has developed a draft operating policies and procedures memorandum, subject: Operating Policy and Procedures for Defense Business Operations Fund (DBOF) Fund Balance with Treasury Management and Contract Authority, which addresses specific procedures to ensure that the DBOF Weekly Flash Cash Report is received in an accurate and timely manner. The new guidance includes a control listing that should be used to validate that all required submitters have complied. In addition, the DFAS Indianapolis Center will validate the accuracy of the report through a comparison with the actual monthly Treasury data. Estimated completion date was November 30, 1996.

Audit Response. The DFAS comments are fully responsive; however, the estimated completion date for the issuance of the guidance was not met. We request that the Director, DFAS provide the new or actual completion date for the issuance of the guidance.

Finding A. Cash Management Within the Defense Agencies

b. Improve the existing cash management tools or develop new cash management tools to prevent overdisbursement at individual agencies.

Management Comments. The Director, DFAS concurred with the recommendation. The draft operating policies and procedures on cash management should improve the process. However, the existing tools, the DBOF Accounting Report 1307, the Report on Budget Execution, SF-133, and the Weekly Flash Cash Report are not optimal tools for developing timely cash positions. The timeliness should improve as the number of disbursing offices decrease and new business practices reduce undistributed disbursements and collections. The Cash Management Reports will be updated with a better program logic and better edit tables to decrease the number of unknown activities appearing on the report. Also invalid limits will be identified and corrected. Estimated completion date was November 30, 1996.

Audit Response. The DFAS comments are fully responsive, however as noted above, the estimated completion date for the issuance of the guidance was not met. We request that the Director, DFAS provide the new or actual completion date for the issuance of the guidance.

Finding B. Cash Management Plans Within the Defense Agencies

The Defense agencies could not effectively execute their cash management plans. This lack of execution occurred because the USD(C) did not provide policy that enabled the Defense agencies to use a consistent cash management approach. In DISA, DMCs did not provide their customers with timely budget information needed to fully fund the costs of DMC services. As a result, the DMCs could not bill and collect for all services rendered to their customers in FY 1995. However, the DMCs continued to pay their liabilities although their disbursements exceeded collections in 7 out of 12 months and disbursements exceeded collections by \$35.5 million at year's end. On the other hand, in FY 1995, DFAS did not receive the funded orders needed to bill customers and collect for services rendered. Consequently, disbursements exceeded collections in 5 out of 12 months and disbursements exceeded collections by \$52.9 million in June 1995. DFAS stopped paying other Defense agencies and did not resume payment until its collections exceeded disbursements by \$38 million in July 1995.

Cash Management Plans

Cash management plans serve as a tool for agency financial managers to facilitate the cash management process. The plan should be based on the approved budget and should consider collections, disbursements, appropriations, and other cash transactions based on estimates. Cash managers at the Defense agencies monitor execution of the plans on a monthly basis and if needed, reduce costs and emphasize timely billing, and timely collection of revenue, and timely disbursements.

The FMR requires cash managers to take necessary action to correct operational problems that contribute to deviations from cash plans. In addition, the cash managers are expected to work with DFAS to correct finance and accounting problems that contribute to deviations from their cash plans. The USD(C) requires that variances from collection and disbursement plans of \$50 million for each business area be resolved. The USD(C) has not updated the FMR to reflect a variance level commensurate to decentralized cash management.

Cash Management Policy

The Defense agencies could not effectively execute cash management plans because the USD(C) did not provide policy that enabled the Defense agencies to use a consistent cash management approach. The FMR and memorandums

Finding B. Cash Management Plans Within the Defense Agencies

provided to the DBOF cash managers did not clearly state whether agencies could disburse more cash than they collected regardless of the U.S. Treasury balance. The USD(C) and DFAS had yet to provide comprehensive guidance on cash management, even though DBOF has operated since October 1991.

The FMR states that cash on hand at the U.S. Treasury account level must always be sufficient to pay liabilities when due. Currently, the Treasury account level for Defense agencies is held by the Manager. We found no evidence of insufficient cash on hand to pay liabilities at the Defense agencies account level. Although cash may be on hand at the Treasury account level and at the Defense agencies level, the cash management practices exercised at individual Defense agencies may preclude a positive cash balance at their level, thus endangering the cash availability at the Defense agencies level. Even though the cash balance is controlled at a higher level, policy should stress the ramifications if multiple Defense agencies disburse more than they collect.

DMC Cash Management. Cash management at the DMCs did not provide for a positive cash balance. Even though the DMCs had a cash balance target of \$125 million, the DMCs did not commit to maintaining the cash balance target established by the Manager. The disbursement practices at the DMCs led to disbursements exceeding collections by \$35.5 million at the end of FY 1995.

The DMCs collected \$138 million, yet disbursed \$327.8 million to cover their costs during the First and Second Quarters of FY 1995. Despite the difference between collections and disbursements, the DMCs continued to pay their liabilities and do mission essential work. The DMCs expected to receive the funds later and continued to operate as if the funds were already available. Table 2 illustrates the DMC collection and disbursement pattern for FY 1995. During the first two quarters, the DMCs disbursed two times the amount collected.

Table 2. DMCs Actual FY 1995 Cash¹

<u>Quarter</u>	<u>Collections (millions)</u>	<u>Disbursements (millions)</u>
1st	\$ 48.4	\$144.7
2nd	89.6	183.1
3rd	211.6	200.4
4th	<u>335.0</u>	<u>192.0</u>
Total	\$684.6	\$720.2

¹Cash as reported by the September 30, 1995, DD Form 1176 "Report on Budget Execution."

Finding B. Cash Management Plans Within the Defense Agencies

DFAS Cash Management. The Manager also established a cash balance target for DFAS. When cash management became decentralized and cash transferred, DFAS noted that the \$75 million cash target cited for them was insufficient. The \$75 million represented a 7- to 10-day cash requirement for operations but none for capital disbursement. According to DFAS personnel, a minimum of 20 days or \$150 million would be needed for them to handle both operations and capital budget disbursements. Apparently, the cash targeted for DFAS did not include cash for prior year capital disbursements. The cash shortage made the situation increasingly complicated because of the capital budget expenditures that DFAS needed to support the DoD financial improvement program. In a November 28, 1994, memorandum to the USD(C), DFAS stated that FY 1994 accounts payable and accrued liabilities, related mostly to capital obligations, amounted to \$375 million. The \$375 million cash outlay would take place in FY 1995.

To manage cash, DFAS withheld payments to other Defense agencies when its cash level fell close to or below the \$75 million cash target. The payments held back consisted mostly of base operating support within DBOF. DFAS did not withhold payment of bills required by directives or regulations such as payroll and to vendors under the Prompt Payment Act. According to DFAS personnel, DFAS did not withhold the authority for the services, DFAS just did not pay the bills on time.

Table 3 illustrates the FY 1995 collections and disbursements at DFAS. Because DFAS used a conservative approach to manage cash, DFAS managed to have collections exceed disbursements at yearend.

Table 3. DFAS Actual FY 1995 Cash²

<u>Quarter</u>	<u>Collections (millions)</u>	<u>Disbursements (millions)</u>
1st	\$ 235.9	\$ 324.4
2nd	572.1	434.4
3rd	333.4	435.5
4th	<u>797.6</u>	<u>622.8</u>
Total	\$1,939.0	\$1,817.1

²Cash as reported by the September 30, 1995, DD Form 1176, "Report on Budget Execution."

DFAS efforts to keep its cash level above the \$75 million cash target would help to prevent the Defense agencies from causing an Antideficiency Act violation. However, the DMCs did not change their cash management approach to stay above the cash target of \$125 million, and this approach could have led to problems. USD(C) needs to approach cash management consistently, and state whether DBOF organizations can disburse more cash than is collected. Such policy would avoid the diverse methods of managing cash.

Finding B. Cash Management Plans Within the Defense Agencies

The General Accounting Office Report No. AIMD-95-79, (OSD Case No. 9859), "Defense Business Operations Fund: Management Issues Challenge Fund Implementation," March 1, 1995, states that DoD needed to develop a systematic process to enforce consistent policy implementation. This process has not been developed.

Budgeting Information for DMC Services

To have an effective customer-provider relationship, the budget process must provide for adequate funding. DMC customers did not have the budget information needed to fully fund the costs of DMC services because the DMCs were unable to provide accurate workload data. In addition, some DMC Military Department customers did not include in their budget submissions base support costs that were previously budgeted by their host commands. The funding amount required by the customers to pay for base support had not been calculated. As a result, the DMCs could not bill their customers and collect for all services rendered, and at the end of FY 1995, disbursements exceeded collections by \$35.5 million. Although it is difficult to execute the concept of a revolving fund which necessitates the breakeven of revenue and expenses during a fiscal year, an organization should strive to earn and bill for the services rendered during a fiscal year.

The Budget Process. Cash management is directly related to budgeting, according to the DBOF cash managers. Accurately projected workloads, sales, costs, and prices would reduce the problem with cash shortages and overages. In DISA, the resource manager begins the budget process by collecting all costs associated with the established workload from the DMCs and developing draft rates by dividing cost estimates by workload for submission to the USD(C). The USD(C) approves the rates and provides them to DMC customers and the Components, (includes the Military Departments and Defense agencies) for budgeting purposes. When the Components receive their annual appropriation, they forward funding orders to DISA to cover the cost of DMC services.

However, the budget process did not work as intended. For example, during the annual operating budget cycle, customers and providers did not use common workload estimates to determine their annual budget needs. Done properly, the workload estimates would first be recorded in a negotiated document referred to as a Service Level Agreement (SLA). The SLA is an agreement between DISA and its customers for the purpose of documenting the services to be provided for the upcoming fiscal year plus one, as well as the estimated cost of those services. The SLA includes services provided, rates and estimated usage, and billing and payment instructions. The intent is to have the SLA completed prior to the beginning of the fiscal year in which services are rendered. However, for FYs 1995 and 1996, the budget cycles for the DMCs and their customers were

Finding B. Cash Management Plans Within the Defense Agencies

completed even though 20.9 and 93.7 percent of SLA agreements, respectively, were not signed. Table 4 shows a matrix of required versus signed SLAs during FYs 1995 and 1996.

Because SLAs were not agreed to and signed, DMCs and their customers did not use common workload data in preparing budget submissions for FYs 1995 and 1996. Although the FY 1997 budget cycle is completed, the number of required SLAs has not been determined. Unless adequate workload data are provided to DMC customers, the FY 1998 budget process will also reflect inconsistent budgeted amounts between DMCs and their customers.

**Table 4. Number of SLAs with DISA Required and Signed
FYs 1995 and 1996**

<u>Customers</u>	<u>FY 1995</u>		<u>FY 1996</u>	
	<u>Required</u>	<u>Signed</u>	<u>Required</u>	<u>Signed</u>
Army	80	76	15	0
Navy	509	420	171	5
Air Force	42	33	31	10
Marines Corps	10	6	6	0
DFAS	1	1	1	0
DLA	52	27	36	1
Other DoD	52	30	33	3
Non-DoD	<u>11</u>	<u>6</u>	<u>10</u>	<u>0</u>
Total	757	599	303	19

Workload Data. The DMCs had problems developing accurate billing rates and workload projections because of inaccurate cost factors. Because the DMCs were relatively new (since FY 1994), DISA did not have historical data from which to build rates or project workload. Also, the previous information processing organizations capitalized by DISA did not capture historical workload data in order to build rates or project workload. Because of the new accounting system, the DMCs expected to have the cost factors needed for billing rates early enough to be used in the annual DBOF budget submission for FY 1997; however, unforeseen delays and problems with unplanned or unexpected workload prevented the DMCs from providing customers with timely workload estimates. The FY 1997 data was not provided to customers until the August to November 1995 time frames, rather than during the early budget planning that takes place in the spring. If better workload estimates are provided, customer budgeting and funding of DMC services will improve.

Finding B. Cash Management Plans Within the Defense Agencies

Customer Budgeting. With workload data and specific budgeting guidance, customers can properly budget for communication and information services from DISA. However, we found that some military facilities in the Denver, Colorado, area had not properly budgeted for the services of DISA.

Before DoD established DISA and later its DMCs, the Military Departments provided their own communication and information services. For example, the Air Force had its own services that supported Lowry Air Force Base. Lowry Air Force Base had budgeted for utilities and information support for the military facilities in the Denver area. The tenants reimbursed Lowry for any services received and did not need to communicate directly with the communication and information provider. As a result, the tenants did not request budgetary amounts for DMC services that were previously provided for by their host commands. According to DISA personnel, when Lowry Air Force Base closed, the tenants had not calculated the cost of all services provided by DISA or its Air Force equivalent and, therefore, did not budget for the costs. Because the organizations had not budgeted, they did not have the funds to fully pay for the DMC services. The required funding amounts were unavailable. Because most of the DMC work is mission related, the DMCs continued to do the work without adequately funded orders. With insufficient funding, DISA would not be able to bill for all services rendered and projected that disbursements would exceed collections by \$22 million in FY 1996. DISA has begun using a new accounting system that is expected to provide the workload data needed to establish accurate billing rates for services they provide. Monitoring the system adequately will help determine whether it is achieving the expected results.

Funding Orders for DFAS Services

During FY 1995 and the First Quarter of FY 1996, DFAS did not receive the required funding orders from the Defense agencies and Military Departments before rendering services. Without funding orders, DFAS was not able to bill and collect for services rendered. The Military Departments were to fund DFAS \$1.5 billion at the beginning of FY 1996. However, as of December 31, 1996, DFAS had received only 43 percent of the funding dollars.

DoD Components ordering work or services from a DBOF-financed organization are expected to use a project order, when applicable. The FMR, volume 11B, chapter 61, sections A.2 and A.3, "Progress Billings, Reimbursements, and Revenue Recognition," states that as a general rule, no work or service should be performed by a DBOF organization without having received and accepted an order. Applicable exceptions, which include incurring limited costs in advance of a receipt or an emergency situation, were not the reasons for the lack of funded orders in this case.

A DFAS memorandum dated November 28, 1994, to the USD(C), Director for Revolving Funds states that customers refused to pay \$107 million in appropriate bills. In addition, the customers refused to provide funding orders

Finding B. Cash Management Plans Within the Defense Agencies

in a timely fashion. DFAS had to perform the services without the funding orders because work such as paying vendors and Government employees is considered mission-essential. The DFAS sent a memorandum to the DLA, as the Defense agencies cash manager, dated June 15, 1995, regarding the potential problems with the DFAS cash position. DFAS was concerned with its ability to maintain sufficient cash levels without receiving timely funding orders. DFAS noted that they received a few funding orders during the Third Quarter of FY 1995.

The USD(C) sent a memorandum dated August 31, 1995, to all of the Military Departments and Defense agencies stating that DFAS should be paid at the beginning of the fiscal year for the FY 1996 services. The Departments could not fully comply at the beginning of FY 1996 because Congress did not approve the DoD budget until December 1995. However, by the end of the First Quarter of FY 1996, less than half of the funding orders were received, as illustrated in table 5.

Table 5. Summary of Funding Orders Received FY 1996³

<u>Summary By Customer</u>	<u>FY 1996 Bill (millions)</u>	<u>Funding Received (millions)</u>	<u>Unpaid Balance (millions)</u>
Army	\$ 604	\$ 62	\$542
Navy	391	341	50
Air Force	324	162	162
Marine Corps	62	62	0
DLA	<u>85</u>	<u>0</u>	<u>85</u>
Total	\$1,466	\$627	\$839

³Funding orders received by DFAS from the Customers as of December 31, 1995.

The General Accounting Office Report No. AIMD-96-54, (OSD Case No. 1109), "Defense Business Operations Fund: DoD Is Experiencing Difficulty in Managing the Fund's Cash," April 1996 states that DFAS was not promptly reimbursed for services provided. According to Army and Navy officials, they did not pay bills promptly because they did not always receive sufficient details from DFAS on the bills, including information on how much money was owed by the different organizations within a service. DFAS informed the General Accounting Office that it began to include more detailed information in its bills. The IG, DoD, also noted DFAS problems of collecting payments for services rendered in Report No. 96-040, "Congressionally Directed Rebates in Defense and Finance Accounting Service Cost Recovery Rates," December 11, 1995. At that time, USD(C) senior managers stated that beginning in FY 1996, the USD(C) would require DFAS customers to provide reimbursable funding orders to DFAS within 10 working days after the start of

Finding B. Cash Management Plans Within the Defense Agencies

the fiscal year for the entire amount of funds provided for payment of financial services. Although the USD(C) issued memorandums to the Departments and DLA, the policy is needed as an update to the FMR.

Summary

The Defense agencies could not effectively execute the cash management plans. We observed cash management difficulties in the two agencies. For example, DMC customers did not have the budget information needed to fully fund the costs of DMC services. In addition, customers did not provide timely funding orders to DFAS. Both actions affected the cash level. The problems of not maintaining a sufficient cash level at the DMCs and DFAS are an indication of a larger problem if operations are similar at the other Defense agencies. Deficient DBOF cash levels in individual Defense agencies could lead to an Antideficiency Act violation not only for the affected agency but also for DBOF. The USD(C) should update the FMR to require the Defense agencies to fund for expected services at the beginning of the fiscal year. In addition, the USD(C) must establish an approach for cash managers to use whenever cash flow is negatively affected. As noted in Finding A, the cash managers need to be trained in how to best manage their business areas. Explicit policy is needed to support consistency.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Under Secretary of Defense (Comptroller):

a. **Update the Financial Management Regulation to mandate the issuance of funding orders in the beginning of the fiscal year for all Defense agencies and Military Departments.**

Management Comments. The USD(C) partially concurred with the recommendation. Although preferred, it is not practical for customers to fully fund all DBOF business areas at the beginning of the fiscal year. Continuing resolutions may preclude full distribution. Also Operation and Maintenance accounts receive funding quarterly. In addition, higher priority requirements may override previously budgeted requirements. It is, however, very desirable for funding to be received as early as possible with the remainder provided as soon as funds can be made available.

Audit Response. The USD(C) comments are not fully responsive. The FMR should include the requirement for upfront funding unless there are extenuating circumstances such as a continuing resolution. The Defense agencies and the Military Departments were not hindered in providing the funding orders at the

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beginning of the fiscal year, instead the organizations refused to do it. Neither DFAS nor any other organization should be required to do work without funding. We request that the USD(C) reconsider its comments to Recommendation B.1.a. and provide additional comments in its response to the final report.

b. Establish a cash management approach that will provide for a consistent method of collecting and disbursing cash. The policy should clarify the appropriateness of an agency, without Antideficiency Act violation reporting responsibilities, disbursing more cash than collecting.

Management Comments. The USD(C) partially concurred with the recommendation to provide for a consistent method of collecting and disbursing cash. Although consistency in methodology is desirable, it is not practical because of the differences between the way business is conducted among the Services and Defense agencies. There are valid reasons for disbursing more funds than collected. For example, if the rates are structured to return prior year operating gains or if accounting record corrections cause an unexpected disbursement, disbursements may exceed collections. The actions taken by the Services and Defense agencies should take all action necessary to avoid Antideficiency Act violations.

Audit Response. The USD(C) comments are not fully responsive. The USD(C) should establish policy that requires, or at least emphasizes, that disbursements should not exceed collections if the cash balance is near zero. This in itself would provide reasonable assurance that a violation would not take place. We request that the USD(C) reconsider its comments to Recommendation B.1.b. and provide additional comments in its response to the final report.

B.2. We recommend that the Director, Defense Information Systems Agency:

a. Monitor and adjust the new standardized accounting system to ensure that it provides the workload data needed to establish more accurate billing rates.

Management Comments. DISA concurred. All accounting for Defense Megacenters DBOF has been consolidated on a single system, the Industrial Fund Accounting System. Effort was exerted in FY 1996 to ensure that all costs and workload were properly matched and billed to the appropriate customers. This effort resulted in the increased ability to bill all costs during the current period. Costs and workload data for the FY 1998 budget package were provided to customers in early spring 1996. This enabled customers to have the necessary information to budget for the full costs of FY 1998.

b. Establish procedures that provide for the completion of the Service Level Agreements prior to the beginning of the fiscal year.

Management Comments. DISA concurred. DISA developed a new procedure for developing Service Level Agreements. The new procedure includes:

Finding B. Cash Management Plans Within the Defense Agencies

(1) templates for developing SLAs; (2) abbreviated SLAs for services less than \$100,000; (3) SLA renewals achieved through the completion of a new appendix to reflect changing rates for the coming fiscal year, and (4) electronic reports for tracking the internal DISA coordination process. These procedures will improve the SLA process thus ensuring that customers receive the SLAs in a timely manner. We anticipate that all FY 1997 SLAs will be presented to the customer for signature by December 31, 1996.

Audit Response. Management comments were fully responsive. However, if FY 1997 SLAs are not presented to customers for signature until December 31, 1996, then the customers still did not receive the SLAs in a timely manner. The FY 1998 SLAs should be presented to customers prior to the beginning of FY 1998. Otherwise, nothing has changed and customers will still be unable to properly budget for DISA services. DISA must ensure that the SLAs are signed prior to the beginning of each fiscal year.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope and Methodology

We reviewed the current DoD FMR on DBOF cash management. We examined DFAS, DISA, and DLA internal documents related to their cash management plans for FYs 1995 and 1996. During the audit, we met with cash managers at DFAS, DISA, and DLA, and accounting personnel at the DFAS Columbus, Denver, and Indianapolis Centers to discuss financial reporting on cash for Defense agencies. For the three Defense agencies, the total FY 1995 collections were \$16 billion, and the total FY 1995 disbursements were \$15.1 billion. We also met with OSD officials responsible for DBOF accounting policy. We met with General Accounting Office personnel to coordinate audits of DBOF cash management.

Scope Limitation. The House of Representatives' National Security Committee report on the National Defense Authorization Act for FY 1996 directed the General Accounting Office to perform a review of DBOF cash management. Because of the General Accounting Office review of the Military Departments, USTRANSCOM, and JLSC, we limited our review to the Defense agencies, specifically DFAS, DISA, and DLA. We did not review the management control program in this phase of the audit.

Use of Computer-Processed Data. To achieve our audit objective, we relied on computer-processed data without testing the general and application controls. We did compare the data on the DD Form 1176 reports, the cash management plans, and the U.S. Treasury reports. Although we did not confirm the reliability of the data, the data will not materially affect the results of our audit.

Audit Period, Standards, and Locations. We performed this financial related audit from October 1995 through April 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD. Appendix D lists the organizations visited or contacted.

Appendix B. Prior Audits and Other Reviews

General Accounting Office

Report No. AIMD-96-54, (OSD Case No. 1109), "Defense Business Operations Fund: DoD is Experiencing Difficulty in Managing the Fund's Cash," April 10, 1996, states that DFAS was not promptly reimbursed for services provided. According to Army and Navy officials, they did not pay bills promptly because they did not always receive sufficient details from DFAS on the bills, including information on how much money was owed by the different activities within a service. DFAS informed the General Accounting Office that they began to include more detailed information in its bills. The report recommended that the USD(C) identify the cash balance for each business area in the DBOF Accounting Report 1307. In addition, the report recommended that DoD organizations follow the existing FMR and provide funding documents to DFAS and other organizations prior to the beginning of work. The USD(C) has not completed action on the recommendations.

Report No. AIMD-95-79, (OSD Case No. 9859), "Defense Business Operations Fund: Management Issues Challenge Fund Implementation," March 1, 1995, states that policies were not implemented consistently and that the return of cash management to the Components may result in increased cash needs, continued advance billings, and consequently, negative cash balances. The report recommended that a systematic process be developed to enforce consistent policy implementation and that DoD reverse its decision transferring cash management back to the Components. DoD nonconcurred with the recommendations. DoD stated that the FMRs contain the policies on cash management. In addition, DoD considered its experience with cash management and determined that cash management responsibilities should be returned to the Components.

Report No. AIMD-94-80, (OSD Case No. 9339-D), "Financial Management: Status of the Defense Business Operations Fund," March 1, 1994, states that DoD needs to develop an effective cash management policy that prescribes minimum and maximum cash requirements needed to support the fund, provides for cash forecasting, and holds DoD agencies and Services accountable for cash outlay targets. Also, because the fund did not have an effective cash management policy, the fund experienced cash shortages and had to advance bill its customers. Furthermore, \$4.7 billion in Fund disbursements had not been matched against obligations as of September 30, 1993. The report contained no recommendations.

Appendix B. Prior Audits and Other Reviews

Report No. AIMD-94-12, (OSD Case No. 9276-D), "Financial Management: Strong Leadership Needed to Improve Army's Financial Accountability," December 22, 1993, states that the Army Budget Execution System did not accurately record disbursements against various disbursement limits to ensure compliance with the Antideficiency Act. The report recommended that systematic problems be resolved and that consistent policies and procedures be enforced to ensure accuracy of disbursements. DFAS concurred with the recommendation stating that a working group has been established to address disbursement issues.

Report No. AFMD-92-79, (OSD Case No. 9057-B), "Financial Management: Status of the Defense Business Operations Fund," June 15, 1992, states that DoD needs to implement an effective cash management policy that prescribes the minimum and maximum cash requirements necessary to ensure efficient operations. The report contained no recommendations.

Inspector General, DoD

Report No. 96-040, "Congressionally Directed Rebates in Defense Finance and Accounting Service Cost Recovery Rates," December 11, 1995, identifies in "Other Matters of Interest," the DFAS problems of collecting payments for services rendered. At that time, USD(C) senior managers stated that beginning in FY 1996, the USD(C) would require DFAS customers to provide reimbursable funding orders to DFAS within 10 working days after the start of the fiscal year for the entire amount of funds provided for payment of financial services. The auditors concluded that no recommendations were necessary because the actions taken by the USD(C) should correct the problems identified.

Report No. 96-001, "Defense Business Operations Fund-Defense Information Services Organization Financial Statements for FY 1994," October 4, 1995, identifies that the DISA Western Hemisphere did not prepare and present FY 1994 financial statements for the DBOF-Defense Information Services Organization that were accurate or in compliance with laws and regulations. Specifically, the property, plant, and equipment line item for FY 1994 financial statements was not based on acquisition values, and the FY 1994 financial statements were not prepared in accordance with the DoD Financial Management Regulation and DoD Form and Content guidance. The report recommended that procedures be established for recording and reconciling capital assets and that additional training for accountable property officers be provided. Management concurred with all recommendations and completed the required actions.

Report No. 95-280, "Management Control Program at Defense Information Systems Agency, Western Hemisphere," July 26, 1995, states that DISA Western Hemisphere did not properly segment its assessable units; establish a management control program; perform timely risk assessments or management control reviews for seven or eight units; and did not include management control program duties as a critical element in the assessable unit managers' performance plans. The report recommended issuing a memorandum of agreement between the DFAS System Manager and the DISA System User; providing training to managers and users; documenting accounting controls and testing of controls; and evaluating prior reviews and audits when performing annual reviews. Management did not concur with the first recommendation; however, they provided an acceptable alternative requiring user participation in the annual review process.

Report No. 95-140, "Staffing Requirements for the Megacenters," March 9, 1995, states that DISA Western Hemisphere did not use an appropriate methodology to estimate the staffing requirements for the 16 Defense Megacenters. The report recommended that the Director, DISA Western Hemisphere use workload functions performed by the computer personnel rather than the speed at which the computer processes an instruction; revise staffing estimates; and adjust the budgets for the Defense Megacenters based on measurable workload factors. Management nonconcurred with the recommendations stating that its methodology for determining staffing requirements is an appropriate method. However, they established a working group to identify and develop workload measures as a basis for estimating staffing requirements at the Defense Megacenters.

Report No. 94-082, "Financial Management of the Defense Business Operations Fund-FY 1992," April 11, 1994, states that cash transactions were not accurately recorded on the financial statements because the USD(C) had not issued written guidance on cash management of the DBOF and had not established oversight to ensure that accounting policies were followed. In addition, the various automated accounting systems in use by the DFAS Centers were not uniform and did not provide consistency in financial reporting or comparability of operations for the Defense Business Operations Fund. The USD(C) was tasked with developing comprehensive policies and procedures for cash management. The report recommended internal reconciliation procedures for disbursements and collections, adequate documentation supporting accounting adjustments, and improved audit trails. Management concurred with the recommendations.

Report No. 93-134, "Principal and Combining Financial Statements of the Defense Business Operations Fund," June 30, 1993, states that controls over cash were inadequate, a material discrepancy existed between the DBOF cash balance and the Department of Treasury records, and that Weekly Flash Cash Reports were inaccurate. The report contained no recommendations. Management generally concurred with the material weaknesses identified in the report.

Appendix C. Unresolved Recommendations

Management Comments Required

The Director, DLA and the Director, DFAS are requested to comment on the items indicated with an X.

Management Comments Required on Finding A.

<u>Recommendation Number</u>	<u>Addressee</u>	<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>
1.b.	DLA	X	X	X
1.c.	DLA	X	X	X
3.a.	DFAS			X
3.b.	DFAS			X

The USD(C) is requested to comment on the items indicated with an X.

Management Comments Required on Finding B.

<u>Recommendation Number</u>	<u>Addressee</u>	<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>
1.a.	USD(C)	X	X	X
1.b.	USD(C)	X	X	X

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense (Comptroller),
Office of the Deputy Chief Financial Officer
Directorate for Accounting Policy, Washington, DC
Office of the Deputy Comptroller (Program/Budget),
Directorate for Revolving Funds
Directorate for Program and Financial Control, Washington, DC

Other Defense Organizations

Defense Commissary Agency, Fort Lee, VA
Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service Columbus
Center, OH
Defense Finance and Accounting Service Denver Center, CO
Defense Finance and Accounting Service Indianapolis
Center, IN
Defense Information Systems Agency, Arlington, VA
Defense Information Systems Agency Western Hemisphere,
Fort Ritchie, MD
Defense Information Systems Agency Support Activity
Denver, CO
Defense Logistics Agency, Fort Belvoir, VA

Non-Defense Federal Organizations

U.S. Department of Treasury, Financial Management Service, Washington, DC
General Accounting Office, Accounting and Information Management Division,
Washington, DC

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Inspector General, National Imagery and Mapping Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER
(Program/Budget)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



OCT 30 1996


MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE, DOD INSPECTOR GENERAL

SUBJECT: DoD Response to Audit Report on Cash Management Within the Defense Business
Operations Fund (Project No. 5FH-2021)

We appreciate the opportunity to provide our attached comments on the subject audit. Contrary to the title, the report only addressed DLA management of its Defense Business Operations Fund (DBOF) cash.

In general, we concur that the management of the Defense Agency portion of the DBOF cash has been a difficult undertaking for the Defense Logistics Agency (DLA) because of the unique circumstances involved. We also believe that the finance and accounting tools currently available need improvement to better manage cash for all of the DBOF organizations, including DLA. The Defense Finance and Accounting Service is aggressively working these issues with the expectation of seeing improvements in both the short and long term.

Attachment


BRUCE A. DAUER
ASSISTANT DEPUTY COMPTROLLER
(PROGRAM/BUDGET)

OUSD(C) Comments on Project No. 5FH-2021)

Finding A. Cash Management Within the Defense Agencies

General comments on the finding analysis

- The audit does not appear to completely understand the level of cash the Defense Agencies received in FY 1995 when cash management responsibilities were returned to the Services and to DLA. The level of cash transferred for the Defense Agencies was equal to 24 days of cash, which exceeded the 7 to 10 days plus six months of capital set in the cash management policy. The 24-day level includes a direct appropriation received each fiscal year for DeCA operations that provides DLA flexibility in managing cash. Therefore, sufficient beginning cash balances were available to DLA in order to execute the cash management responsibility transfer. However, the more significant measure of DLA's cash levels is its ending balance, not its starting position.
- DLA should be contacted on the specific staffing and training of personnel statements made in the audit; however, DLA is well aware that if they need assistance or support from OUSD(C), it will be provided.
- Some additional procedures to implement the cash management policy are required. DFAS will be promulgating these procedures shortly, and the FMR will be updated as well. DFAS should provide more information on this part of the audit in their reply.
- The weekly flash cash report has not proven to be a reliable tool at this time; however, the report is received in a timely manner. The problem is in being able to determine what the cash month-end balances will be from this report. Analysis of these reports over a long period of time shows little correlation between disbursements and collections on the weekly report and those on the month-end official accounting reports.
- We agree that the congressionally mandated cash transfer of FY 1992 and FY 1993 completely depleted DBOF cash balances, and that it has been a struggle to restore cash to an acceptable level.

Audit Recommendations

Actions for USD(C)

- Recommendation: Determine the 7 to 10 day cash needs of the DBOF, support the need, and request the needed cash from Congress.

DoD Response: We agree with the recommendation, and numerous actions have been taken at this level to increase the billing rates charged to customers, which will produce collections in excess of costs, thereby increasing cash levels. Action will be taken during the review of the FY 1998 and FY 1999 budget to insure that the Defense Agency's billing rates insure a cash

Under Secretary of Defense (Comptroller) Comments

Final Report
Reference

level of 7 to 10 days and financing of six months of capital outlays. The determination of the 7 to 10 days of cash needs of the DBOF was made at the time of the cash transfer in FY 1995 and is reviewed each fiscal year for the purpose of monitoring the cash execution levels.

- Recommendation: Establish policy that allows the Defense Agencies cash manager to assign restrictive administrative targets within the DBOF agencies for better management of collections and disbursements.

DoD Response: This is not required. If DLA chooses to impose an administrative target on each Defense Agency, there is nothing that precludes them from doing so today.

Finding B. Cash Management Plans Within the Defense Agencies

General comments on the finding analysis

- USD(C) promulgated the approved cash management policy on March 24, 1994, and DFAS will be issuing implementing procedures shortly. The policy is intended to be comprehensive direction with Services and DLA developing further details for the unique situations each experiences.
- The finding states that "the concept of revolving funds does not necessitate the break even of revenue and expenses during any one fiscal year." This statement is incorrect as a requirement of all DBOF business areas is to prepare a budget that obtains zero accumulated operating results in the budget year. It is true that accomplishing that feat during the execution of that fiscal year, with all the factors that can cause losses or gains, is difficult.

Audit Recommendations

Actions for USD(C)

- Recommendation: Update the FMR to mandate the issuance of funding orders in the beginning of the fiscal year for all Defense Agencies and Military Departments.

DoD Response: Partially concur with the recommendation. Although it would be preferred that all DBOF business areas receive their full funding at the beginning of the fiscal year, it is just not practical to believe that it can happen. Continuing resolutions are sometimes a way of life at the beginning of each fiscal year which means all funds will not be available for distribution. Also, the Operation and Maintenance accounts are apportioned on a quarterly basis making full funding for all DBOF work impossible. In addition, not all resources budgeted for specific purposes can be executed as budgeted due to higher priority requirements, contingencies, etc. It is, however, very desirable for funding to be received as early as possible with the remainder provided as soon as funds can be made available.

- Recommendation: Establish a cash management approach that will provide for a consistent method of collecting and disbursing cash. The policy should clarify the appropriateness of an

agency, without Anti-Deficiency Act violation reporting responsibilities, disbursing more cash than collecting.

DoD Response: Partially concur with the recommendation to provide for a consistent method of collecting and disbursing cash. Although consistency in the method is desirable, due to the significant variations in the way business is conducted in each Service or Agency, as well as the differences between business areas, it does not appear possible to develop an effective policy at the USD(C) level that could provide this consistency. Although it may not seem to be appropriate to disburse more funds than a business area collects, there are valid reasons why this could occur. If rates for that fiscal year have been developed to return a prior year operating gain, collections will be less than disbursements. If corrections to accounting records cause either an unexpected disbursement or cancellation of a collection, then cash transactions will not balance out to zero. The audit gives examples of both ways of doing business. One example showed a lack of concern that cash was declining while the other example actually took action to control disbursements where possible. The latter situation is the model for all Services and Agencies to follow. The policy is that all actions possible must be taken to insure cash balances are properly managed to avoid Anti-deficiency Act violations.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

NOV - 1 1996

DFAS-HQ/AFC

MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

Subject: Comments on Department of Defense Inspector General
Draft Audit Report, "Cash Management Within the Defense
Business Operations Fund," Dated August 23, 1996
(Project No. 5FH-2021)

In your memorandum to the Director, Defense Finance and
Accounting Service (DFAS), dated August 23, 1996, subject as
above, you requested comments for Recommendations A.3.a. and
A.3.b. The DFAS input for these recommendations is attached.

If additional information is required, my point of
contact is Mrs. Adrienne L. Ferguson, who may be reached
on (703) 607-1581.

A handwritten signature in black ink, appearing to read "T. McCarty".

Thomas F. McCarty
Deputy Director for
Accounting

Attachment

**Department of Defense Inspector General
Draft Audit Report, "Cash Management Within
the Defense Business Operations Fund"
(Project No. SFH-2021)**

General Comments: The draft audit report states that the audit was conducted on the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund. The FY 1996 Chief Financial Officers Act Financial Statements have not been published. It is assumed that these references should be made to the FY 1995 statements.

Recommendation A.3.a.: The DoD IG recommended that DFAS establish procedures to substantiate that the Weekly Flash Cash Reports to the Defense Finance and Accounting Service Centers are on time and that the data are accurate.

DFAS Response: Concur. DFAS has developed a draft operating policies and procedures memorandum, subject: Operating Policy and Procedures for Defense Business Operations Fund (DBOF) Fund Balance With Treasury Management and Contract Authority, which addresses specific procedures to ensure that the DBOF Weekly Flash Cash Report is received in an accurate and timely manner. This guidance requires that the DBOF Consolidated Weekly Flash Report on Fund Status (Acct Rpt[w] 1445) be submitted on a weekly basis to the DFAS Indianapolis Center for consolidation. All weekly reports will be for the value of transactions processed since the last weekly report. The DFAS Indianapolis Center has developed a control listing of all submitters that are required to forward the weekly flash cash data. In the event that a submitter fails to report, the DFAS Indianapolis Center will contact the submitter to obtain the missing data. Unfortunately, due to the communication difficulties typically associated with such geographically dispersed networks coupled with the narrow time constraints, the report may be released prior to making contact with all late reporters. However, in order to assess the accuracy of the reported data, the DFAS Indianapolis Center will compare "actual" monthly Treasury data to the reported "flash" data. The submitters found to have large variances between actual and flash data will be contacted to determine problem areas and provided assistance in an attempt to prevent the recurrence of the reporting deficiencies.

Attachment

Estimated Completion Date: The final version of the guidance will be fully coordinated and issued by November 30, 1996.

Recommendation A.3.b.: The DoD IG recommended that DFAS improve the existing cash management tools or develop new cash management tools to prevent overdisbursement at individual agencies.

DFAS Response: Concur. As indicated in the comments for Recommendation A.3.a., the draft operating policies and procedures memorandum also provides specific guidance for DBOF cash management. However, existing cash management tools include the DBOF Accounting Report 1307 (AR [M] 1307 Report), the Report on Budget Execution (SF 133), and the Weekly Flash Cash Report. Monthly reports, while useful in developing historical trends for the purpose of tracking the business cycles within specific business areas, are recognized to be less than optimal in developing timely cash positions for use by cash managers. As the report states, work is ongoing to enhance the level of usefulness of the DBOF Weekly Flash Cash Report. Currently, this process is for the most part a manually intensive operation involving feeder reports from the entire DoD financial network.

However, timeliness will improve as the DoD financial consolidation process leads to fewer disbursing offices from which to collect data. Additionally, new business practices involving the reduction/elimination of cross disbursing transactions will lead to the reduction of undistributed disbursements and collections thereby improving the ability of the cash manager to accurately assess the cash position of the agency/activity. In the short term, we plan to improve the usefulness of the monthly Cash Management Reports by updating the program logic and report edit tables in order to decrease the number of "Unknown" activities appearing on the report. The DFAS Indianapolis Center, as the consolidator of the Weekly Flash Cash Report, will be working with the remaining DFAS Centers to identify invalid limits that have been reported through each of the respective DFAS Center networks. Identifying and correctly labeling "Unknown" activities will lead to more accurate information for the cash managers. Additionally, as the DBOF Cash Manager becomes more firmly established, we will be working closely with the Cash Manager to incorporate viable recommendations to improve the quality and timeliness of the cash management data.

Attachment

Estimated Completion Date: The final version of the guidance will be fully coordinated and issued by November 30, 1996.

Attachment

Defense Information Systems Agency Comments



DEFENSE INFORMATION SYSTEMS AGENCY
701 S. COURTHOUSE ROAD
ARLINGTON, VIRGINIA 22204-2199



IN REPLY
REFER TO: Inspector General

22 October 1996

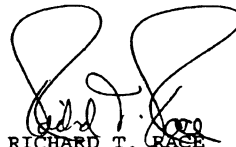
MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: Director, Finance and Accounting Directorate

SUBJECT: Draft Audit Report on Cash Management Within
the Defense Business Operations Fund
(Project No. 5FH-2021)

Reference: DODIG Report, subject as above, 23 Aug 96

We are forwarding comments to the subject draft audit report as per your request. We concur with the recommendations and our detailed management comments are enclosed. The point of contact for this action is Ms. Sandra J. Sinkavitch, Audit Liaison, on (703) 607-6316 or electronic mail address sinkavis@ncr.disa.mil.

FOR THE DIRECTOR:


RICHARD T. RACE
Inspector General

1 Enclosure a/s

Quality Information for a Strong Defense

**MANAGEMENT COMMENTS TO DODIG DRAFT REPORT ON
CASH MANAGEMENT WITHIN THE DEFENSE BUSINESS OPERATIONS FUND
(Project No. 5FH-2021)**

Recommendation B.2. Recommend the Director, Defense Information Systems Agency (DISA):

B.2.a: Monitor and adjust the new standardized accounting system to ensure that it provides the workload data needed to establish more accurate billing rates.

Response: Concur. During FY96, prior year obligations and expenses were maintained on several accounting systems. However, all accounting for Defense Megacenters (DMC) DBOF has now been consolidated on a single system, the Industrial Fund Accounting System (IFAS).

In an effort to reduce the amount of discrepancies in billing procedures, tremendous effort was exerted in FY96 to ensure that the data flow between IFAS and the workload/invoicing Multiple Visual Storage (MVS) Integrated Control System (MICS) properly matched all costs and workload to the appropriate customers for billing. This effort resulted in the increased ability to bill all costs during the current period.

Cost and workload data for the FY98 budget package was provided to customers in early Spring of 1996. This enabled customers to have the necessary information to budget for the full costs of FY98.

B.2.b: Establish procedures that provide for the completion of the Service Level Agreements prior to the beginning of the fiscal year.

Response: Concur. DISA has developed a new procedure to reduce the processing time for developing Service Level Agreements (SLAs). The new procedure includes: 1) templates for developing SLAs; 2) abbreviated SLAs for services less than \$100,000; 3) SLA renewals achieved through the completion of a new Appendix B to reflect changing rates for the coming fiscal year, and 4) electronic reports for tracking the internal DISA coordination process. These procedures will improve the SLA process thus ensuring that customers receive the SLAs in a timely manner. We anticipate that all FY97 SLAs will be presented to the customer for signature by 31 December 1996.

ENCLOSURE

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

28 OCT 1996.


IN REPLY
REFER TO DDAI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITS
DEPARTMENT OF DEFENSE

SUBJECT: Cash Management Within the Defense Agencies (Project No. 5FH-2021)

This is in response to the August 23, 1996 Draft Report. If you have any questions, please contact Mr. Dave Stumpf, (703) 767-6266.

Encl


OLIVER COLEMAN
Acting Chief, Internal Review Office

Subject: DRAFT REPORT: Cash Management Within the Defense Business Operations Fund
(Project No. 5FH-2021)

Finding: A. The DLA, assigned as the Defense agencies cash manager, could not effectively manage and control \$28 billion in collections and \$28.3 billion in distributions during FY 1995. Although the USD(C) believed that decentralizing cash management would improve the process, the Manager experienced the same problems as the former centralized cash manager, the USD(C). Congressionally mandated transfers away from DBOF of \$8.3 billion in FYs 1992 and 1993 and cash management problems within the Department of the Navy contributed to the Defense agencies receiving an insufficient beginning cash balance of \$674 million. In addition, the Manager did not have the authority or the time to provide adequate management oversight of cash balances at the Defense agencies. Furthermore, the Manager could not accurately monitor cash levels within the Defense agencies because the cash management tools, such as reports and feeder data, were inaccurate and untimely. Consequently, to increase cash available for Defense agencies' use, DoD used the funds generated from the reduction of inventory in DLA as DoD downsized. Also, the Manager could not fully control the cash balance and influence the Defense agencies' collections and disbursements of cash and could only react to, rather than prevent, problems that could cause the cash balances to go below the minimum specified in DoD policy.

DLA Comments:

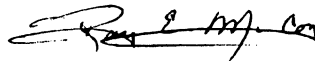
Nonconcur. The reasons for the nonconcurrence are included in the comments to the recommendations.

Action Officer: Carl Kerby, FOX

Review/Approval: D.. P. Keller, Capt, SC, USN, FO

Coordination:

DLA Approval:



Subject: Cash Management Within the Defense Business Operations Fund
(Project No. 5FH-2021)

Recommendation A.1.a.: Restructure and formalize the Defense agencies cash manager position within the Comptroller Office to allow full-time execution of cash management responsibilities for the Defense Business Operations Fund Defense agencies.

Nonconcur. The audit report presents no factual data to support the finding that the cash manager had insufficient time to carry out assigned cash management responsibilities, or that restructuring the position would improve cash management. The only basis for the recommendation appears to be that it was the opinion of an employee who disagreed with management decisions on work assignments.

The facts are that DoD policy recommends that a 7 to 10 day cash balance be maintained at all times. The Defense Agencies' FY 1995 ending cash balance was \$1.8 billion, equating to over 15 days cash, and at least 7 days of cash was on hand throughout that fiscal year, and has since been maintained.

We do concur that our cash management responsibilities require a significant resource investment and in fact, dedicate more than one full time person to cash management. We have formally assigned cash management responsibilities, have designated cash management functions as the priority of the persons assigned the responsibilities, and have made cash management a priority for all levels of DLA management.

Disposition:

- () Action is ongoing. ECD:
- (x) Action is considered complete.

Action Officer: Carl Kerby, FOX,
Review/Approval: D.P. Keller, Capt, SC, USN, FO
Coordination:

DLA Approval:



Subject: Cash Management Within the Defense Business Operations Fund
(Project No. 5FH-2021)

Recommendation A.1.b.: "Develop and implement the training needed to improve cash management by the Defense Business Operations Fund Defense agencies."

Nonconcur. This recommendation also appears to be based on the opinion of an employee involved in cash management functions at the time of the audit. In our view, assessing and satisfying personnel training needs are inherently supervisory/line management responsibilities. We have no supervisory nor line management authority over other Defense Agencies, nor does our core mission involve the development and execution of formal training for Defense personnel. If there is empirical evidence to suggest that Defense Agencies' cash management personnel are not sufficiently trained, then we suggest the recommended action be directed to the Defense Agencies concerned.

Disposition:

- ☐ Action is on going. ECD:
- ☒ Action is considered complete.

Action Officer: C. Kerby, FOX
Review/Approval: D.P. Keller, Capt, SC, USN
Coordination:

DLA Approval:



Audit Team Members

This report was provided by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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